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AUTHOR Wary, Curt
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ABSTRACT

This step-by-step guide provides practical advice for local board members, administrators, and school board negotiators on determining current and anticipated costs, so that union demands can be analyzed. It concisely describes the "how to" of scattergrams (graphic distribution of staff salary structure), salary guides, percentage versus flat dollar increases, and costing out multiyear settlements. It also discusses the actual cost of fringe benefits and gives advice on how to control the cost of these items while still providing a fair compensation for the staff. (Author/TE)

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COSTING OUT THE LABOR AGREEMENT

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COSTING OUT

THE LABOR AGREEMENT

by Curt Wary
Assistant Director, Labor Relations

PUBLISHED BY THE NEW JERSEY SCHOOL BOARDS ASSOCIATION

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The initial *Costing Out the Labor Agreement* book, published in June of 1979, was authored by Cathleen Otto, former Assistant Director of Labor Relations. This widely acclaimed publication was of immeasurable assistance in the research and writing of the new costing book. I can now fully appreciate the time and effort that Cathy expended in her writings.

I also want to express my special thanks to Kathleen Vogt, Administrative Secretary of Labor Relations, for her invaluable insights and superb mathematical skills.

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INTRODUCTION

The process of costing out the current labor agreement is one of the most important, albeit arduous, tasks that a school district entering negotiations must face. Prior to at-the-table negotiations, it is essential to examine each cost item as part of a total package and know what each item is worth to employees and how much it costs the board. This knowledge will enable management to make decisions at the table that are based on fact rather than "guesstimates." Once current and anticipated costs are determined, union demands can be analyzed and costed to ensure that what is said at the bargaining table by management is accurate.

The purpose of this publication is to give local board members, administrators and school board negotiators practical and concise advice on the costing process. In order to convey this information in as readable a fashion as possible, a hypothetical school district (Anytown) is utilized throughout the pamphlet.

By way of background, Anytown is a suburban community with a elementary school and a 7-12 combined middle and high school. There are presently 50 teachers and 15 support staff employed in a district which has a student enrollment of 880. The teachers comprise one bargaining unit while the support staff unit includes secretaries and custodians (5 support staff employees are not in the unit). Both the teachers and the support staff contracts expire July 1 of next year and thus negotiations with both units commence this Fall.

It should be noted that the salaries and benefits mentioned in this pamphlet are for illustration purposes only; their inclusion should not be interpreted as endorsements or as averages.

Note also that all of the techniques utilized in the Anytown negotiations can be used in your district, whether you have 20 teachers or 500. Use this pamphlet to prepare, step-by-step, for your own negotiations.

DATA COLLECTION

The first step in the costing process is to collect the necessary information. The amount of data required for costing is extensive. Any and all cost items in your present contract as well as any anticipated demands should be thoroughly analyzed. In this section, we will see how the "Anytown" Negotiations Committee went about this chore.

In preparation for negotiations this Fall, the Anytown Negotiations Committee met to decide exactly what information would be essential once negotiations commenced. It was determined that the Committee would require a complete accounting of all monies spent for the present agreements (teacher and support staff) and the best estimate of what probable union demands would cost. Other known increases from year to year such as insurance costs would also have to be calculated. The Committee then authorized the formation of two subcommittees; one committee would analyze the current teachers' contract and staff, while the other committee would analyze the support staff contract and personnel. The endeavors and findings of the subcommittee studying the teachers are reported below.

A. Contract Analysis

The subcommittee studying the current teachers' agreement included the Superintendent who contributed his experience of having administered the agreement on a day-to-day basis. The entire contract was analyzed to ascertain which provisions contained actual cost items to the District. The subcommittee identified the following clauses:

salaries	tuition reimbursement
sick leave	hospital/surgical insurance
personal leave	dental insurance
sabbaticals	prescription drug insurance

B. Staff Identification

While the contract was being analyzed for cost items, the subcommittee was also analyzing Anytown's teaching staff in terms of placement on the guide, age, and years of service to the District. The tools that the subcommittee utilized were scattergrams, age and length of service charts and individualized teacher profiles.

Scattergram A scattergram is a graphic distribution of where the staff fall on the guide (see Figure 1). More specifically, the scattergram showed:

- number of teachers on each step in each column of the salary guide (i.e., 1 on BA step 1, 2 on MA step 12, etc.)

• total monies for each step for each column of the salary guide (i.e., $11,662 on BA step 1, $34,864 on MA step 12, etc.)

• total number of employees in each column (BA = 28, MA = 16, MA + 30 = 6)

• total monies spent for each column (i.e., BA — $456,377)

In addition, the subcommittee was able to make the following calculations from information derived from the scattergram:

• total monies for all columns ($456,377 + $288,061 + $119,505 = $863,943)

• average teacher's salary ($863,943 ÷ 50 teachers = $17,279)

FIGURE 1

SCATTERGRAM

Distribution of Staff on the Current Teachers' Salary Guide

Step	BA	x	# Per Step	=	Total $ Per Step	Step	MA	x	# Per Step	=	Total $ Per Step	Step	MA + 30	x	# Per Step	=	Total $ Per Step
1	$11,662		1		$11,662	1	$12,142					1	$12,865				
2	12,142		1		12,142	2	12,624					2	13,345				
3	12,624		1		12,674	3	13,104					3	13,825				
4	13,104		2		26,208	4	13,586		1		13,586	4	14,307				
5	13,586					5	14,066					5	14,787				
6	14,066					6	14,548					6	15,269				
7	14,548		3		43,644	7	15,028					7	15,749				
8	15,028		2		30,056	8	15,509		1		15,509	8	16,231				
9	15,509		1		15,509	9	15,990		1		15,990	9	16,711				
10	15,990		1		15,990	10	16,471		1		16,471	10	17,192				
11	16,471		2		32,942	11	16,952		1		16,952	11	17,673				
12	16,955		1		16,955	12	17,432		2		34,864	12	18,154		1		18,154
13	17,432		3		52,296	13	17,914		2		35,828	13	18,635				
14	17,914		2		35,828	14	18,395		1		18,395	14	19,116		1		19,116
15	18,394		4		73,576	15	18,876					15	19,597		1		19,597
16	18,876		2		37,752	16	19,357		1		19,357	16	20,077				
17	19,356		1		19,356	17	19,837		1		19,837	17	20,559		1		20,559
18	19,837		1		19,837	18	20,318		4		81,272	18	21,039		2		42,079
			Total # on BA Column 28		Total $ on BA Column $456,377				Total # on MA Column 16		Total $ on MA Column $288,061				Total # on MA + 30 Column 6		Total $ on MA + 30 Column $119,505

Total $ on the guide: $863,943

The subcommittee did not include longevity and extracurricular pay in the salary base and average salary calculations. If Anytown provided longevity it would be included in these figures. Extracurricular stipends were not included in the salary guide base since the extracurricular monies appear in a separate guide.[1]

Once the scattergram had been completed for the current teachers' salary guide, it was necessary to complete **another** scattergram for where the teachers would be in the coming year (see Figure 2). This scattergram reflects the cost of the **increment** alone for all teachers receiving a service increase.

FIGURE 2

SCATTERGRAM

Next Year's Distribution of Staff on the Current Teachers' Salary Guide

Step	BA	x	# Per Step	=	Total $ Per Step	Step	MA	x	# Per Step	=	Total $ Per Step	Step	MA + 30	x	# Per Step	=	Total $ Per Step
1	$11,662					1	$12,142					1	$12,865				
2	12,142		1		12,142	2	12,624					2	13,345				
3	12,624		1		12,624	3	13,104					3	13,825				
4	13,104		1		13,104	4	13,586					4	14,307				
5	13,586		2		27,172	5	14,066		1		14,0o6	5	14,787				
6	14,066					6	14,548					6	15,269				
7	14,548					7	15,028					7	15,749				
8	15,028		3		45,084	8	15,509					8	16,231				
9	15,509		2		31,018	9	15,990		1		15,990	9	16,711				
10	15,990		1		15,990	10	16,471		1		16,471	10	17,192				
11	16,471		1		16,471	11	16,952		1		16,952	11	17,673				
12	16,955		2		33,910	12	17,432		1		17,432	12	18,154				
13	17,432		1		17,432	13	17,914		2		35,828	13	18,635		1		18,635
14	17,914		3		53,742	14	18,394		2		36,788	14	19,116				
15	18,394		2		36,788	15	18,876		1		18,876	15	19,597		1		19,597
16	18,876		4		75,504	16	19,356					16	20,077		1		20,077
17	19,356		2		38,712	17	19,837		1		19,837	17	20,559				
18	13,837		2		39,674	18	20,318		5		101,590	18	21,039		3		63,117
			Total # on BA Column 28		Total $ on BA Column $469,367				Total # on MA Column 16		Total $ on MA Column $293,830				Total # on MA + 30 Column 6		Total $ on MA + 30 Column $121,426
Total $ on the guide: $884,623																	

[1]Extracurricular money **should** be included in at-the-table or media discussions of true average salaries.

In order to calculate the increment, the total money for the current year must be subtracted from the total money for the coming year.

Increment: $884,623 (see Figure 2)
− 863,943 (see Figure 1)
$ 20,680

The Anytown Negotiations Committee now knew that movement on the guide alone would cost the district $20,680 in the coming year. This dollar figure was also converted to a percentage to serve as a useful reference point when calculating money proposals during negotiations:

$20,680 ÷ $863,943 = 2.39% of total monies on the guide

The Committee was well aware of the importance of stressing to the union that all money proposals would be **inclusive** of increment.

Personnel Changes There was some discussion among Committee members about the possibility of RIFs in the coming year and how this contingency should be addressed in the costing process. Rather than attempt to predict any possible personnel changes (RIFs, retirements, non-renewals, hirees, leaves of absence, etc.), the Committee and the union agreed that the base year figures for the number of staff would be treated as a constant throughout negotiations. The parties would negotiate for a successor agreement **as if** the exact same staff would be employed throughout the agreement. The base salary figure of $863,943 would be adjusted by the negotiated increase and distributed on the guide to reflect an appropriate raise for the 50 teachers in the unit during the base year.

If the district were to have a reduction in force (RIF) of, for example, 5 teachers, the base for the purposes of salary negotiations would not be affected. The negotiated increase would still be based on $863,943 as the base and the guide construction would reflect the existence of the 50 employees of the base year.

By keeping the salary base constant, the parties avoided the problem of readjusting the base if RIFs are announced mid-negotiations. It also avoids a union attempt to utilize the base of $863,943 to determine the value of a certain negotiated percentage increase, and then spread this money over the **reduced number of employees remaining after the RIF.** The following illustrations prove the danger of not agreeing to maintain a constant salary base and number of staff throughout the negotiations:

- current total salary costs for 50 teachers: $\frac{\$863,943}{50 \text{ teachers}}$ = $17,279 average teacher's salary
- if a 5% increase in total salaries were agreed to: $\frac{\$907,140}{50 \text{ teachers}}$ = $18,143 new average teacher's salary
- but if 5 teachers were RIFfed, the same settlement would amount to more per employee, since fewer people would share the $907,140

$$\frac{\$907,140}{45 \text{ teachers}} = \$20,159 \text{ average teacher's salary}$$

The remaining 45 teachers would receive increases of almost 17% rather than the intended 5%.

Age and Length of Service Calculations In addition to a scattergram, the Anytown teaching staff was also analyzed in terms of age and length of service. The Committee constructed an age distribution chart (see Figure 3) which reported on how many teachers fell into certain age categories (21-25, 26-30, etc.) as well as summary totals combining categories (under 36, under 41, etc.), an average age (47.4) and a median age (47.8).

FIGURE 3

Age Distribution Chart

No. of Employees 21-25	0	No. of Employees Under 36	5
No. of Employees 26-30	1	No. of Employees Under 41	8
No. of Employees 31-35	4	No. of Employees Over 40	42
No. of Employees 36-40	3	No. of Employees Over 50	16
No. of Employees 41-45	12	Average Age of Employees	47.4
No. of Employees 46-50	14	Median Age of Employees	47.8
No. of Employees 51-55	8		
No. of Employees 56-60	4		
No. of Employees 61-65	4		

The Board team realized this data would prove useful in predicting union demands. For example, the chart indicates that the teaching staff is fairly mature and may be interested in such benefits as payment for unused sick leave at retirement, longevity pay and more sick days. If the staff were younger, they would be more likely to want more leisure time or, possibly, orthodontic coverage under the dental plan.

The Age Distribution Chart also would aid in forecasting retirements and recruitments. Given the fact that under the Teachers' Pension and Annuity Fund teachers may retire at full allowance after age 60, any teachers approaching or surpassing this age must be viewed as potential retirees (who may then need to be replaced). Glancing at the chart, it was determined that 4 teachers had already surpassed age 60 and 4 more were approaching that age.

In conjunction with the Age Distribution Chart a Length of Service Chart was also compiled (see Figure 4). Similar to the age study, this chart identifies the number of teachers in certain length of service categories and provides both an average and median length of service in the district.

FIGURE 4

Length of Service Chart

No. of Employees 1-5 Years	6	Average Length of Service	12.5
No. of Employees 6-10 Years	10	Median Length of Service	13.1
No. of Employees 11-15 Years	21		
No. of Employees 16-20 Years	9		
No. of Employees 21-25 Years	4		

Consistent with the average and median age data, the average and median length of service figures reflect a rather experienced staff. Therefore, this chart confirms the suspicion that the union is more apt to demand benefits that are most often associated with an experienced staff such as longevity, additional sick days and payment for unused sick leave at retirement.

Employee Profiles The final tool employed in analysis of the District's teaching staff was a teacher profile (see Figure 5). This device was viewed as a supplement to the scattergram, age and length of service charts since it brought much of that data together on an individualized basis. Profiles of employees included position on the guide, salary, extracurricular pay and total current salary (if longevity were provided it would be included as well) or really a composite of all information collected to date.

Since Anytown employed only 50 teachers, it was relatively easy to compile this information for each individual.

FIGURE 5

Employee Profile

	Name	Age	Position on Salary Guide	Salary	Extracurricular Activity/Pay	Total Current Salary
1.	Joe Smith	32	MA Step 10	$16,471	Soccer/$1500	$17,971
2.						
3.						
4.						
5.						

As a means of predicting union demands, it was of particular importance to have a profile of each individual on the union negotiating team. Sometimes, members of negotiating teams will pursue their own interests before, or instead of, the needs of the majority of the membership. In Anytown, the profiles of the union team mirrored the mature, experienced character of the entire staff except that most team members were involved in extracurricular activities. Accordingly, the Committee believed that the union would push strongly for an increase in extracurricular stipends as well as payment for unused sick leave at retirement, more sick days and longevity.

DETERMINING SALARY COSTS

Once the necessary information has been accumulated, the actual costing of salary increases is a relatively easy task. A somewhat more difficult chore is to access the effects of salary increases on the structure of the salary guide. The salary guide problems that Anytown experiences in this section are prevalent throughout the state. Careful attention should be paid to these problems, their causes and some possible remedies.

Armed with data derived from the scattergrams, age and length of service charts and employee profiles, the Negotiations Committee proceeded with the actual costing of salaries and benefits. It was decided that salary proposals would be costed first since the district's largest yearly expenditure was teacher and support staff salaries. The full Board had also expressed some concern about distortions in both the teachers' and support staff salary guides that the Committee was anxious to address.

A. Costing Increases

In the hope of becoming proficient at costing salary increases prior to negotiations, the Committee costed a series of hypothetical union salary proposals. The following scenario was one such exercise.

Union Demand:

A 10% increase per teacher (including increment) plus longevity payments of $200 after 15 years, and $300 after 20 years.

From the scattergram already constructed (Figure 1) the Committee knew that the total salary cost for the current year is $863,943 and the average teacher's salary is $17,279 based on 50 staff.

Total cost of current salaries	$863,943
10% increase	+ 86,394
	$950,337
New average salary, excluding longevity $19,007	
If the increase in longevity were agreed to, an additional $4,200 would be spent	+ 4,200
	$954,537
New average salary, including longevity $19,091	
Increase in average salary including longevity:	
New avg. salary	$19,091
Current avg. salary	− 17,279
	$ 1,812 ÷ $17,279 = 10.5%

The Committee, realizing the importance of being able to think in dollar amounts as well as percentages, learned an easy method to convert percentages to dollar amounts and vice versa.

10% increase (from above):	$86,394
÷ by 50 teachers:	$ 1,178 per teacher

A 5% increase would cost $864 per teacher. Each one percent increase is equal to $173 per teacher.

Converting dollar amounts to percentages, a $100 increase across the board would be equal to .58%:

$$\frac{\$100 \text{ (across the board increase)}}{\$17,279 \text{ (current average salary)}} = .58\%$$

B. Special Salary Guide Considerations

Once the Negotiations Committee knew how to cost out salary increases, their attention was turned to the structure of the salary guides themselves. The Anytown Board, concerned about "distortions" in the guides, had asked the Committee to study the problem. Upon completion of the study, the Committee reported that both the teachers and the support staff guides had become "distorted" over the years. The study indicated that the teachers' guide had a greatly increased dollar

differential between minimums and maximums,[2] while the support staff guide had developed a "balloon step" or a large dollar differential between the last step and next to the last step on the guide.

Percentage v. Dollar Increases In analyzing how the teachers' salary guide had changed, it became apparent that the changes or "distortions" were directly attributable to the method in which salary settlements were applied to the guide. Historically, once a monetary figure had been agreed to, the Board had allowed the teachers to handle the distribution of the money on the guide. The teachers had invariably chosen to apply percentage increases across the guide. As a result, the dollar difference between salary minimums and maximums had become "stretched" (see Figure 6). Over the course of three percentage increases, the dollar differential between BA minimum and maximum increased $1,375 ($8,175 – $6,800). However, it should be noted that the percentage differential remained the same (70%).

FIGURE 6

	1979	+6%	1980	+6%	1981	+7%	1982	
70%	BA Min $ 9,700	$582	$10,282	$ 617	$10,899	$ 763	$11,662	70%
	BA Max $16,500	$990	$17,490	$1,049	$18,539	$1,298	$19,837	
	Dollar Difference: $ 6,800		$ 7,208		$ 7,640		$ 8,175	

Note that these percentage increases do not include increment — i.e., the 1981 total cost, per employee, exceeded 9%.

The Anytown teachers have preferred percentage increases over flat dollar amounts since the majority of the staff is concentrated on the upper end of the salary guide: a 7% increase is worth $1,389 to a teacher earning $19,837, but only $816 to a teacher earning $11,662.

As a method of arresting the further expansion of the dollar differential between the minimums and maximums on the guide, the Committee explored the use of flat dollar increases (see Figure 7). While a flat dollar increase would **not reduce** the inflated dollar differential that resulted from the previous percentage increases, it would **maintain** the present dollar interval.

[2]The distortion in salary guide ranges referred to in this section is a common problem for school districts throughout the state. For a further discussion of this issue see "Teacher Salary Guides: The State of the Art," *Negotiations 1982* (NJSBA, 1981), pp. 20-26.

FIGURE 7

		1982 +1200	1983 +1200	1984 +1200	1985	
	BA Min	$11,662	$12,862	$14,062	$15,262	
	Step 5	13,586	14,786	15,986	17,186	
$8,175	Step 10	18% 15,990	17,190	18,390	14% 19,590	$8,175
	Step 15	18,394	19,594	20,794	21,994	
	BA Max	19,837	21,037	22,237	23,437	
		(70% differential from min to max)			(54% differential from min to max)	

On a percentage basis, the preceding example demonstrates that the differential between the minimums and maximums would be reduced (from 70% in 1982 to 54% in 1985). Moreover, flat dollar increases compress the percentage difference between steps throughout the guide: in 1982 there is an 18% difference between Step 5 and 10; in 1985 that difference would be only 14%. Overall, when applying **percent increases** to the guide, the result is constant percent differentials from minimum to maximum, but the guide is stretched in terms of dollar differentials. Conversely, granting **flat dollar increases** maintains the constant dollar differential but has the effect of compressing the guide in terms of percent differentials.

If a district has a concern about retaining experienced employees, salary increases should be proposed on a percentage basis since the employees at the top of the guide will benefit most from this type of increase. Flat dollar increases are most beneficial to less experienced employees near the bottom of the guide and may be utilized to attract new employees (many districts are having problems recruiting new teachers as a result of low starting salaries). If there is union resistance to flat dollar increases (or percent increases), a possible compromise solution would be to divide the new money, and award half on a percent basis and half on a flat dollar basis.

Balloon Steps As stated earlier, the support staff salary guide had a large dollar differential between the last step and the next to the last step on the guide (see Figure 8). This "balloon step" had developed as a result of the last two salary settlements when the union had demanded and received an additional percentage increase for employees on the last step of the guide. The union team, headed by a custodian at maximum, reasoned that these employees would be penalized if they received the same basic percentage increase as other employees who also received an increment. The union convinced the previous board that the only "equitable" solution was to provide employees at the top of the guide with a larger percentage increase to compensate for the lack of an increment.

FIGURE 8

Scattergram
Current Support Staff Salary Guide

Step	Secretaries	# on Step	$ on Step	Step	Custodians	# on Step	$ on Step
1	$ 8,000			1	$ 8,400		
2	8,500	1	$ 8,500	2	8,900		
3	9,000			3	9,400	1	$ 9,400
4	9,500	1	9,500	4	9,900	1	9,900
5	10,000	1	10,000	5	10,400		
6	10,500	2	21,000	6	10,900	1	10,900
7	12,000	1	12,000	7	12,400	1	12,400
		Total # on Step 6	Total $ on Step $61,000			Total # on Step 4	Total $ on Step $42,600

Total $ on guide: $103,600

The salary study analyzed the balloon step and came to the following conclusions:

- By applying a larger percentage increase to the top of the guide, the "stretching" effect of percentage increases is further aggravated.
- An employee moving from the next to the last step to the last step would receive an exorbitant increase.

The Committee considered various alternatives, including the construction of a whole new guide, but decided that the most practical way to eliminate the balloon step was to add steps to the top of the guide.[3]

[3]This is not to suggest that the adding of steps is the best or only solution to the problem of balloon steps. For a further discussion of this issue see "What's Wrong with Balloon Steps in Salary Guides," *School Leader* (NJSBA, March/April 1982).

Additional Steps Calculated on a 5% Increase to the Top of The Guide

Step	Secretaries	# on Step	$ Increase	Step	Custodians	# on Step	$ Increase
1	$ 8,600			1	$ 9,020		
2	9,100			2	9,520		
3	9,600	1	1,100	3	10,020		
4	10,100			4	10,520	1	$1,120
5	10,600	1	1,100	5	11,020	1	1,120
6	11,100	1	1,100	6	11,520		
7	11,600	2	1,100	7	12,020	1	1,120
8	12,100			8	12,520		
9	12,600	1	600	9	13,020	1	620

This proposed guide was based on a maximum which represented a 5% increase on top of the present guide ($12,000 secretaries, $12,400 custodians) and a $500 interval between every step. Two additional steps were inserted in order to "deflate" the balloon step. The two employees who were at maximum (Step 7) on the present guide were moved to maximum (Step 9) on the proposed guide. Since these employees both have 9 years of experience in the District (they have been at maximum for two years), a two step jump seemed appropriate and was necessary if these individuals were to receive an acceptable increase.[4]

The proposed guide addressed the main concerns of the Committee: 1) the balloon step would be eliminated; 2) the present guide's $500 intervals would be maintained; 3) every employee would receive an increase; and 4) the cost would be less than 10% over the present guide.

DETERMINING FRINGE BENEFIT COSTS

In recent years, bargaining in public education has focused increasingly on non-wage items or what has been commonly labeled "fringe benefits." As a result, it is now estimated that between 25-40% of the total payroll cost per teacher is attributable to fringe benefits. Under these circumstances, school boards must be able to accurately determine the cost of present benefits and to anticipate the cost of proposed benefits.

[4]If the increase at maximum is not acceptable, even a $900 increase at the top would significantly reduce the balloon step ($800 rather than $1,500), which could be completely eliminated in future negotiations.

Having collected the necessary data and determined how salary increases are to be addressed, the Negotiations Committee was ready to calculate the costs of current benefits as well as the cost of benefits that the unions were likely to demand in upcoming negotiations. The teacher and support staff contracts presently provide sick leave, personal leave, hospital/surgical, dental and prescription drug insurance. Additionally, the teachers' contract contains tuition reimbursement and sabbatical leave provisions. Based upon the staff analysis conducted earlier, payment for unused sick leave at retirement was viewed as a potential demand for both teachers and support staff.

A. Temporary Leaves of Absence

Consistent with some 70% of the school districts in New Jersey, Anytown provides the minimum of 10 sick days per year as stated in *N.J.S.A.* 18A:30-1. In addition, the District grants 3 unspecified personal leave days per year (for personal business which cannot be handled during school hours).

Cost Per Day The Committee discovered there were two basic methods employed to cost out sick leave and personal leave days:

Out-of-Pocket Costs — determine the actual out-of-pocket costs that the board incurs when an employee takes a sick day or personal day. Utilizing this approach, the cost of each day would only be the cost of providing a substitute. (The average substitute pay in New Jersey is $30 per day which is also what Anytown pays.).

Loss of Employee's Services — calculate the loss of the employee's services to the district and the actual cost of the substitute . For teachers, it is difficult to precisely quantify the loss of educational continuity and teaching services, but this may be reasonably measured at the rate of the average teacher's daily salary:

Anytown average teacher's salary	$17,279
184 day school year	× 1/184 (.0054)
	$93.31

Since the substitute pay in Anytown is $30/day, the cost of each day, using this method, would be:

$93.31 + $30 = $123.31 per day

The Committee believed that Method 1 (cost of substitute only) was most useful for determining actual costs and being able to budget accordingly. However, Method 2 (loss of employee's services) was also necessary since it reflected the value of the sick leave or personal leave benefit to the employee, the value of receiving pay for time not worked. As such, Method 2 calculations could be used in negotiations to impress upon the staff the value of these benefits.

Actual and Potential Usage Once the Committee had figured cost per day, it was necessary to determine the overall cost of sick leave and personal leave based upon the **actual** number of days previously used and the **potential** number of days available.

Calculating the cost of leave days on the basis of actual usage was only possible because Anytown had maintained accurate records on sick leave and personal leave usage. In recent years, the average usage rate was 5 sick days (or 50% of the days available to each employee) and 2 personal days (or 66% of available days). Utilizing this information and the per day cost of replacing the absent employee (Method 1), the Committee was able to ascertain the actual cost of these benefits to the district:

Actual Cost of Sick Leave		**Actual Cost of Personal Leave**	
Cost of substitute	$30	Cost of substitute	$30
Average usage	× 5 days	Average usage	× 2 days
Cost per employee	$150	Cost per employee	$60
Number of employees	× 50	Number of employees	× 50
Total current cost	$7,500	Total current cost	$3,000

Since the staff analysis concluded that the unions might demand more sick leave, the Committee was anxious to know what an additional sick day would cost the district:

	Cost of 1 Additional Sick Day
Cost of substitute	$30
Average	× 5.5 days (based on 50% usage of 11 days)
Cost per employee	$165
Number of employees	× 50
	$8,250 or $750 per additional day

Continuing to utilize Method 1, **potential** or maximum usage for each benefit was figured:

Potential Cost of Sick Leave		**Potential Cost of Personal Leave**	
Cost of substitute	$30	Cost of substitute	$30
10 sick days	× 10	3 personal days	× 3
Potential cost per employee	$300	Potential cost per employee	$90
Number of employees	× 50	Number of employees	× 50
Potential total cost	$15,000	Potential total cost	$4,500

In order to emphasize the value of these benefits to the staff, actual and potential costs were also calculated on the basis of Method 2 (loss of employee services):

Actual Value of Sick Leave		Actual Value of Personal Leave	
Average salary	$17,279	Average salary	$17,279
Daily rate (1/184)	× .0054	Daily rate (1/184)	× .0054
Average daily wage	$93.31	Average daily wage	$93.31
Average usage	× 5 days	Average use	× 2 days
Value of 5 sick days to each employee	$466.55	Value of 2 personal days to each employee	$186.62
Cost of substitutes	+ 150 (5x$30)	Cost of substitute	+ 60 (2x$30)
Average cost per employee	$616.55	Average cost per employee	$246.62
(or 3.57% of salaries)		(or 1.43% of salaries)	
Number of employees	x 50	Number of employees	x 50
	$30,828		$12,331
(or 3.57% of total salary costs)		(or 1.43% of total salary costs)	

Potential Value of Sick Leave		Potential Value of Personal Leave	
Cost of 1 sick day	$93.31	Cost of 1 personal day	$ 93.31
10 sick days	x 10	3 personal days	x 3
Potential value of 10 sick days to each employee	$933.10	Potential value of 3 personal days to each employee	$279.93
Cost of substitute	+ $300.00 (10x30)	Cost of substitute	+ $90.00 (3x$30)
Potential cost per employee (or 7.14% of salaries)	$1233.10	Potential cost per employee (or 2.14% of salaries)	$369.93
Number of employees	x 50	Number of employees	x 50
	$61,675		$18,497
(or 7.14% of total salary costs)		(or 2.14% of total salary costs)	

B. Payment for Unused Sick Leave at Retirement

The earlier staff analysis indicated that one potential union demand would be payment for unused sick leave at retirement. Given the mature age of the staff, the rising popularity of this benefit statewide, and the fact that this was one of the few benefits that the staff did not already enjoy, it would be logical to assume that the unions would ask for this benefit.

Since these types of payout plans vary widely in terms of benefit to the employee and thus cost to the employer, it would be difficult to anticipate the cost of any proposed plan. However, Anytown has main-

tained accurate records on sick leave (for both usage and days accumulated) and on numbers of employees nearing retirement (age and length of service charts) so the **immediate** costs of a payout plan could be easily calculated once the specifics of a proposed plan are known.

For example:

- if an employee, who will reach retirement during the term of the contract, has accumulated 30 days already and is expected to accumulate 10 more during the life of the contract and the proposed stipend is $25/day, the cost of the plan for that employee would be 30 accumulated sick days + 10 sick days × $25 = $1,000
- if the plan does not provide for reimbursement for days accumulated prior to the first year in which the provision is in effect, the cost for that employee would be 10 sick days x $25 = $250.

If Anytown decides to give payment for unused sick leave at retirement, it, or your district, should insist upon the following controls:

- *maximum number of days for which payment will be made*
- *maximum dollar amount*
- *token reimbursement per day (**not** daily salary upon retirement)*
- *minimum years continuous service in the district*
- *notice provisions and timing of payment.*

In addition, the employer should consider limiting payment to only those days accumulated **after** the plan is adopted, or to only those employees who have used no more than 25% of the sick days they had available to them in prior years.

C. Tuition Reimbursement

The current teachers' contract provides for tuition reimbursement on the following basis:

> Tuition reimbursement is available for certificated personnel who are enrolled in an accredited graduate program. The Board agrees to pay the employee the full cost of tuition and other reasonable expenses for 6 graduate credits per year up to a total of $400. All courses must be approved in advance by the Superintendent.

During the past year, 12 teachers were enrolled in a graduate program (an increase of 2 from the previous year) and received reimbursement. Although the contract provides a maximum of 6 credits per year and a $400 limit per employee, the total credits taken were 60. Actual and potential usage were again calculated for bargaining and budgeting purposes:

Current Costs		Potential Costs	
60 credits (avg. $60/credit)	$3,600	46 teachers at $400 max. (4 teachers already have Doctorate)	$18,400
Books and supplies	600[5]	Books and supplies[6]	2,760
	$4,200		$21,160
(or .5% of total salary costs)		(or 2.4% of total salary costs)	

Given the recent increase in the number of teachers availing themselves of tuition reimbursement and the exorbitant potential cost of this benefit, it is recommended that Anytown, or your district, negotiate an ***overall dollar cap*** *on these reimbursement plans to limit board liability. Other controls that should be considered include:*

- *maximum number of credits*
- *graduate credits only*
- *tuition only (no books or fees)*
- ***maximum number of dollars per teacher***
- *prior approval of courses by Superintendent*
- *payment only upon successful completion, e.g., "B" or better*
- *subject area must be directly related to teacher's assignment*

D. Sabbatical Leaves

The present teachers' contract specifies:

> Any teacher who has served in the district for a period of not less than 7 years may be granted a sabbatical leave for one year at one-half of full pay for the purpose of study in the teacher's area of assignment. The maximum number of sabbatical leaves granted shall not exceed 2 in any school year.

The Committee decided that the most accurate method of costing sabbatical leaves was on the basis of the expense of replacement personnel (hired at BA minimum salary) and their fringe benefits (estimated at 20% of the average teacher's salary) minus half the salary of the teachers on leave:

Cost of 2 substitutes at starting salary of $11,662	$23,324
Cost of substitutes' fringe benefits (20% of $17,279 x 2)	6,912
Savings of 50% of salaries of teachers on leave[7]	(– 17,192)
Cost of 2 sabbaticals	$13,044

[5]based on average of 20 courses (60 credits) and $30 per course
[6]based on 2 courses (6 credits) x 46 teachers x $30 per course
[7]The 2 teachers had salaries of $15,990 and $18,394 respectively. = $34,384 ÷ 2 = $17,192

The costs of sabbatical leaves are directly related to the provisions of the contract. Is the leave for 1 year at full pay or half pay? Costs for future years may vary from past years depending upon where the specific teacher receiving the leave falls on the salary guide. Normally, future costs should be tied to the average salary of those eligible for this benefit (in Anytown, a teacher with not less than 7 years in the district).

It should also be mentioned that you are paying the cost of two full benefits packages: the benefits of the teachers on sabbatical and the benefits of the teachers hired to replace them. Depending on how many benefits your district provides, this could be expensive.

E. Health Insurance

Anytown presently provides 100% employer-paid Blue Cross/Blue Shield, Rider J and Major Medical coverage for all employees (teacher and support staff) under a single plan. In addition, all employees and their families receive dental and prescription drug insurance ($1.00 deductible).

Since insurance premiums are normally billed on a per person basis, the first step in costing these benefits is to determine the per employee cost. Records indicated the following:

Coverage:	BC/BS	Dental	Drug	Total
Single	$ 390	$180	$ 63	$ 613
Family	$1,100	$550	$153	$1,803
Parent/Child	$ 684	$275	$ 98	$1,057
Husband/Wife	$1,050	$275	$ 98	$1,423

From this information and past records, the Committee ascertained the cost for each insurance plan for the current year and several past years. This comparison enabled the Committee to see how costs have increased each year and to better anticipate future increases.

Year	BC/BS	Dental	Drug	Total
1979/80	$32,540	$13,204	$5,685	$51,429
1980/81	$37,290	$16,125	$7,006	$60,421
1981/82	$40,860	$17,820	$7,440	$66,120

(The level of benefits has remained the same.)

As this table demonstrates, insurance costs have increased dramatically over the course of the past 3 years: BC/BS — 26%; dental — 35%; drug — 31%; and total costs have increased 29%. In the past, the magnitude of these increases had not been anticipated and several budgeting problems were created. As a result, the Board instructed the Committee that a **dollar limit,** either per employee or per insurance plan, is a high priority item for the upcoming negotiations.

Boards should exercise extreme caution when negotiating health insurance benefits. For example, a union may agree, in order to win a political victory, to a dental plan where the actual benefits to the employee are minimal. A basic plan may only provide minimal coverage with a large deductible, at an acceptable cost to the board. However, once the deficiencies in the plan are discovered by the employees, the costs of an acceptable dental plan may be prohibitive.

Another concern is future costs for health insurance benefits. It is advised that boards forecast future costs so that they do not misunderstand the long-range costs and can budget properly. Some boards (such as Anytown above) have experienced skyrocketing costs for insurance premiums during the course of a 2 or 3 year contract.

One method of protecting the vitality of the budget is to agree to set a dollar amount per employee or per plan. For example, whatever can be purchased for $100 per employee will be the health plan; or the board could agree to provide up to $5,000 for a dental plan. However, it must be noted that the time to set limits is before the district has agreed to a health plan. Once the contract contains a health plan without limits it will be far more difficult to gain union acceptance of a cap on spending.

HIDDEN COSTS

The costs of employing teachers is comprised of more than just salaries and fringe benefits. There are also hidden costs that school boards may not consider when costing out the current contract or anticipating costs of union demands. Some of these are: social security, unemployment insurance and worker's compensation. Increases in salary settlements will increase the amount paid by the employer for these benefits.

In 1982, employers must currently pay 6.7% of the salaries of its employees up to a maximum of $32,400 per employee for social security. An increase in the average employee's salary will also increase the amount of the social security tax paid. Unemployment insurance is paid in one of two ways: a flat rate of 1% of each employee's salary up to $8,200 per employee, or a reimbursement method (based upon each district's layoff experience). Worker's compensation is paid based upon a flat rate per type of employee and the amount of payroll. Professional and clerical employees are classified at $0.60 per $100 of payroll, while non-professional employees and drivers are as high as $6.60 per $100 of payroll.

While these costs may not be seen as direct benefits to employees, they are paid for by the public employer and should be costed out.

Since the employer contributions to pension plans (PERS and TRAF) are paid by the state, they should not be costed out at this point in time.

MULTI-YEAR AGREEMENTS

It has been reported that 90% of the teacher contracts in New Jersey are of a duration of more than one year.[8] Given this high percentage of multi-year agreements, it is important for boards to realize that wage levels (the salaries stated on the guide) and settlement costs can be affected by the amounts of money placed in each year of the settlement.

A. Frontloading v. Backloading

Since Anytown has traditionally negotiated multi-year contracts (usually 2 years in duration), the Committee was interested in analyzing multi-year agreements to see how the year in which you place salary increases affects the cost of the settlement and the general wage level of the district. What the Board discovered is that with any given set of percentage increases over 2 or 3 years, the **wage level** at the end of the second or third year is not affected by the order in which the various increases are given, but the **costs** to the district can be influenced dramatically:

Two Year Contracts

	Frontloading (7%/6% Increase)		Backloading (6%/7% Increase)	
Base/Avg.	$863,943	$17,279	$863,943	$17,279
1st year	+ 60,476 (7%)	+ 1,210 (7%)	+ 51,837 (6%)	+ 1,037 (6%)
	$924,419	$18,489	$915,780	$18,316
2nd year	+ 55,465 (6%)	+ 1,109 (6%)	+ 64,104 (7%)	+ 1,282 (7%)
Base/Avg.	$979,884	$19,598	$979,884	$19,598

The salary base, i.e., the total cost of salaries, and the average salary are the same in the second year of the contract, but the total cost to the district of the 2 year increase ends up being $8,639 more with frontloading.

Total Increased Cost to the District

Frontloading		Backloading	
1st year	$ 60,476	1st year	$ 51,837
2nd year	$115,941 ($60,476 + $55,465)	2nd year	$115,941 ($51,837 + $64,104)
	$176,417		$167,778

[8] *An Analysis of Teachers' Contracts in New Jersey 1981-82/1982-83* (NJSBA, 1982), p. 10.

With 2 year contracts, the Committee learned of a simple formula for finding the difference in cost between frontloading and backloading: the difference will always be the larger percentage minus the smaller percentage times the base.

$$7\% - 6\% = 1\% \times \$863{,}943 = \$8{,}639$$

Three Year Contracts

	Frontloading (8%/6%/4% Increase)		Backloading (4%/6%/8% Increase)	
Base/Avg.	$863,943	$17,279	$863,943	$17,279
1st year	+ 69,115 (8%)	+ 1,382 (8%)	+ 34,558 (4%)	+ 691 (4%)
	$933,058	$18,661	$898,501	$17,970
2nd year	+ 55,984 (6%)	+ 1,120 (6%)	+ 53,910 (6%)	+ 1,078 (6%)
	$989,042	$19,781	$952,411	$19,048
3rd year	+ 39,562 (4%)	+ 791 (4%)	+ 76,193 (8%)	+ 1,524 (8%)
	$1,028,604	$20,572	$1,028,604	$20,572

Again, the salary base and the average salary remain the same but the total cost to the district of the 3 year increase is $71,188 more with frontloading:

Total Increased Cost to District

	Frontloading		Backloading	
1st year	$ 69,115		$ 34,558	
2nd year	$125,099	(69,115 + 55,984)	$ 88,468	(34,558 + 53,910)
3rd year	$164,661	(69,115 + 55,984 + 39,562)	$164,661	(34,558 + 53,910 + 76,193)
	$358,875		$287,687	

What Anytown learned is that frontloading is always more expensive than backloading. As these calculations demonstrate, the wage levels and base figures are not affected by the order of the increases but the cost differences to the district may be enormous. The only time the wage level is affected is when the percentages are ***equal*** *(i.e., 6%/6%/6%), in which case the wage level will increase slightly.*

B. Twice Per Year Increases

The Anytown Board knew of a neighboring district that had negotiated a two year contract where the employees received two 5% increases per year. Intrigued with the possibilities, the Board asked the Committee to study the cost and wage level ramifications as compared to single increases per year.

The Committee compared, for a two year period, single increases per year (10% each year) and twice per year increases (two 5% each year), in terms of **total** and **net cost** to the district, and in terms of the effects on employee **wage levels.**

The Committee compared the total costs, on a year by year basis, to ascertain how much would be saved in each year, and over the two year period, with twice per year increases:

Year 1 — Total Cost

10% Increase Per Year		Two 5% Increases Per Year	
Base Salary	$863,943	Base Salary	$431,972* ($863,943 ÷ 2)
	+ 86,394 (10%)	Sept.	+ 21,599 (5%)
		Total cost Sept. to Jan.	$453,571
		Feb.	+ 22,679 (5%)
		Total cost Feb. to June	$476,250
Total Year 1 Cost	$950,337	Total Year 1 Cost	$929,821 ($453,571 + 476,250)
	$20,516		

*Increases are calculated on a half-year base.

In the first year, the increased cost of the 10% settlement is $86,394. By contrast, the increased cost of the two 5% settlements is only $65,878 ($929,821 − $863,943). Therefore, the twice per year increases would cost Anytown **$20,516** ($950,337 − $929,821) **less** in the first year.

However, the Committee discovered that while there was a tremendous **actual cost savings** in the first year when using twice per year increases, the **resultant** salary base for the next year is actually higher:

Year 2 — New Salary Base

10% Increase Per Year	Two 5% Increases Per Year
$950,337	$952,500 ($476,250 x 2)

For twice per year increases, the new salary base for the second year is $952,500 (or $476,250 on a half-year basis) because $476,250 was the **base in effect at the end of the first year** (February to June). Actual costs are $20,516 less in the first year since first year salaries paid were an **average of both the September to January and February to June guides.**

As a result of the higher salary base, twice per year increases yield a smaller savings in the second year than in the first year:

Year 2 — Total Cost

10% Increase Per Year		Two 5% Increases Per Year	
New Base (from above)	$950,337	New Base (from above)	$476,250
	+ 95,034 (10%)	Sept.	+ 23,813 (5%)
		Total cost Sept. to Jan.	$500,063
		Feb.	+ 25,003 (5%)
		Total cost Feb. to June	$525,066
Total Year 2 Cost	$1,045,371	Total Year 2 Cost	$1,025,129 ($500,063 + 525,066)
		$20,242	

During the second year, Anytown would realize a cost savings of **$20,242** by employing two 5% increases. However, upon closer examination, the Committee found that these savings were a result of $20,516 that was saved in the first year being saved again. **Actually, in terms of new dollars, Anytown would spend $274 more in the second year by using twice per year increases because of the inflated salary base:**

Year 2 — New Dollars Spent

10% Increase Per Year		Two 5% Increases Per Year	
Total Year 2 Cost	$1,045,371	Total Year 2 Cost	$1,025,129
Total Year 1 Cost	− 950,337	Total Year 1 Cost	− 929,821
New $ Year 2	$ 95,034	New $ Year 2	$ 95,308
		− $274	

Nevertheless, over a two year period, twice per year increases would save Anytown **$40,758** ($20,516 + $20,242):

Total Cost For Two Year Period

10% Increase Per Year		Two 5% Increases Per Year	
Total Year 1 Cost	$ 950,337	Total Year 1 Cost	$ 929,821
Total Year 2 Cost	+ 1,045,371	Total Year 2 Cost	+ 1,025,129
Total Cost for 2 Years	$1,995,708	Total Cost for 2 Years	$1,954,950
	$40,758		

On a net cost basis, it is once again apparent that twice per year increases would save Anytown $40,758 over two years:

Net Cost

10% Increase Per Year		Two 5% Increases Per Year	
Total Cost Year 1	$ 950,337	Total Cost Year 1	$ 929,821
Less base	− 863,943	Less base	− 863,943
Net Cost Year 1	$ 86,394	Net Cost Year 1	$ 65,878
Total Cost Year 2	$1,045,371	Total Cost Year 2	$1,025,129
Less base	− 863,943	Less base	− 863,943
Net Cost Year 2	$ 181,428	Net Cost Year 2	$ 161,186
Net Cost of two 10% increases over two years:	$ 267,822	Net Cost of four 5% increases over two years:	$ 227,064
	$40,758		

The Committee did express one additional note of caution: **twice per year increases in the second year of the contract would again inflate the salary base for the next negotiations** significantly above the actual salary costs of the second year. The salary base derived from the second year February to June salary guide would be $1,050,132 ($525,066 x 2) compared to the actual second year costs of $1,025,129. This inflated base was even slightly larger than the salary base for future negotiations that would be produced by single 10% increases per year ($1,045,371). **Thus, the Committee noted that although twice per year increases would save the district money during the life of the agreement, it could result in higher expenditures in the future due to an inflated salary base.**

Having noted the effect of twice per year increases on total and net costs, the Committee was anxious to see how these increases would influence employee wage levels. Based upon the average teacher's salary in Anytown, wage level and **actual** salaries were compared for both types of increases.

Wage Levels and Actual Salaries

10% Increase Per Year		Two 5% Increases Per Year		
Avg. teacher salary	$17,279	Avg. teacher salary	$ 8,640 ($17,279 ÷ 2)	
1st year	+ 1,728 (10%)		+ 432 (5%)	
	$19,007	Sept.-Jan.	$ 9,072	1st year **actual** salary $18,598* or 7.6% over $17,279
2nd year	+ 1,901 (10%)		+ 454 (5%)	
		Feb.-June	$ 9,526	
			+ 476 (5%)	
		Sept.-Jan.	$10,002	2nd year **actual** salary $20,504* or 10.2% over $18,598
			+ 500 (5%)	
		Feb.-June	$10,502	
Wage level end of 2nd year	$20,908	Wage level end of 2nd year	$21,004 ($10,502 × 2)	

*The **actual** salary that a teacher earns is less than the wage level since the teacher only receives the February increases for half the year.

If Anytown gave twice per year increases, the wage level would increase dramatically in both years, compared to the **actual** salary earned by the teacher. The wage level (the salary on the guide) would have increased by 21.6% (the difference between $21,004 and $17,279) while the teacher would actually receive only a 18.7% increase (the difference between $20,504 and $17,279). On the other hand, if Anytown gave a 10% increase per year, both the wage level and what the teacher actually received would equal 21%. Therefore, by giving twice per year increases, the Board would save the **$500** difference between the wage level ($21,004) and the teacher's actual salary ($20,504). However, the teacher would also benefit since the wage level for subsequent negotiations is higher than it would be if single increases per year were applied ($21,004 vs. $20,908).

In certain situations, twice per year increases can be a useful device for achieving a settlement. Where the board and the union agree on the need to increase the wage level but the board lacks the immediate funds, twice per year increases would have the desired effect of inflating the wage level for the future while saving the district actual dollars during the current contract.

CONCLUSION

The intent of this publication is to make the process of costing out the labor agreement somewhat less intimidating and more manageable. If there is one overriding theme throughout the chapters, it is organization. Approach the costing process on a systematic basis: collect all the necessary data, cost out all potential increases, determine all benefit costs, uncover all hidden costs and so forth. If a district proceeds on a step by step basis, it is less likely to omit some important cost consideration that could later haunt it at the bargaining table.

It is also advised that this book be used in conjunction with other NJSBA publications when preparing for negotiations. For instance, the *Negotiations* series provides tactical advice at the bargaining table including the most effective use of costing information. When comparing cost items such as salaries, increments, settlement rates and benefits to those in other school districts, an excellent source is the *An Analysis of Teachers' Contracts in New Jersey/Collective Bargaining Data* series. A new publication, entitled *Collective Negotiations,* will provide information on a number of important aspects of the preparing process (analyzing the contract, the board team, legal framework, etc.). All of these publications should be explored and used to a district's maximum advantage when preparing for negotiations.

Good Luck in Negotiations!

NEW JERSEY SCHOOL BOARDS ASSOCIATION
315 West State Street, P.O. Box 909
Trenton, New Jersey 08605